

active capital from commercial banking and offering insufficient inducement to investors of banking capital. Five banks were created under the law, of which, two soon disappeared and three were continued under special charters. The Bank of British North America, which operated in all the provinces under a royal charter, apparently obtained the greatest advantages from the secured note system by employing it prudently in connection with its other business. The failure of the "Free Banking Act" was acknowledged as early as 1859, but it was not repealed until the passage of the Provincial Note Act of 1866¹.

The temptation to use the power of note issue for the benefit of the State assailed the provincial authorities again in 1866, when the government found themselves compelled to raise about \$5,000,000 to discharge the floating debt. Mr. A. T. Gait, Minister of Finance, succeeded in carrying a bill, which received the royal assent August 15, 1866, assuming the power of the Province to issue not more than \$8,000,000 of notes, payable on demand in specie at Montreal or Toronto and legal tender except at those offices. He did not dare propose the immediate abolition of the bank-note currency, but proposed an indemnity payment by the government of five per cent, per year, on the amount of notes outstanding on April 30, 1866, until the expiration of the charter of any bank which might accept the conditions of the act and withdraw its own circulation before January 1, 1868. Banks willing to accept this offer were relieved from the requirement to invest ten per cent, of their capital in, debentures and allowed to exchange them at par for Provincial notes. The Bank of Montreal was the only institution which accepted the new system and gradually substituted Provincial notes for its own issue. This action separated the interests of the Bank of Montreal from those of the other banks and led the former to force the legal tender notes into circulation as rapidly as possible in the settlement of its balances. The Bank of Montreal was able to force the other banks into holding legal tenders by threatening to exact settlements in legal money, which the other banks